



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 16, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number 6813**

**31 Central Street East
Bagley, Minnesota 56621**

**Office of the Comptroller of the Currency
North Dakota and Northwestern Minnesota Field Office
3211 Fiechtner Drive
Fargo, North Dakota 58103-2358**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 11, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

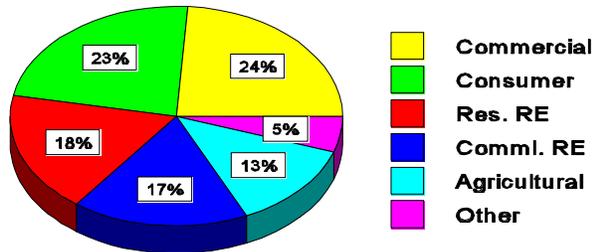
The bank lends to borrowers of different income levels, making a reasonable number of its consumer instalment loans to borrowers of lower incomes. The bank's loan-to-deposit ratio is reasonable, with a majority of loans being made within its assessment area. The bank lends to all segments of its assessment area, and does not arbitrarily exclude any low- or moderate-income neighborhoods.

DESCRIPTION OF INSTITUTION

First National Bank (FNB), a \$60 million financial institution, is one of 13 banks headquartered in the bank's assessment area. FNB is

Loan Portfolio Composition

As of March 31, 1997



headquartered in Bagley, Minnesota, and has one branch in Fosston. Both Bagley and Fosston are small rural communities. FNB is a wholly-owned subsidiary of First National Agency. FNB is a full service bank and offers a variety of loan products with an emphasis on commercial and consumer instalment loans.

As of March 31, 1997, commercial and instalment loans respectively accounted for 24% and 23% of the bank's \$31 million loan portfolio. Residential real estate loans totaled another 18%. Other real estate loans represented 17% of the loan portfolio, with agricultural loans totaling 13%, and other loans equaling 5%.

The bank's financial condition, size, local economic conditions, and other factors allow it to help meet the credit needs of its assessment area. The bank has neither opened nor closed any branches since the last CRA examination. At the last CRA examination dated December 16, 1994, FNB received a satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area includes all of Clearwater and Mahnomen counties, and part of Polk county. The assessment area includes block numbering areas 9601 through 9603 in Clearwater county; 9601 and 9603 in Mahnomen county; and 209 and 210 in Polk county. The assessment area contains five moderate- and two middle-income tracts. The area contains no low- or upper-income tracts. The assessment area complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The assessment area is located in northwestern Minnesota. The assessment area has a combined population of approximately 21,000. Bagley has a population of approximately 1,400. The local economy is dominated by the logging and agriculture industries. The primary agricultural products are wheat, barley, and cattle. Area economic conditions remain poor. Clearwater county, where the bank is headquartered, remains one of the most economically depressed counties in Minnesota. Several area banks provide strong competition.

Examiners made community contacts with one small business owner in Bagley and one in

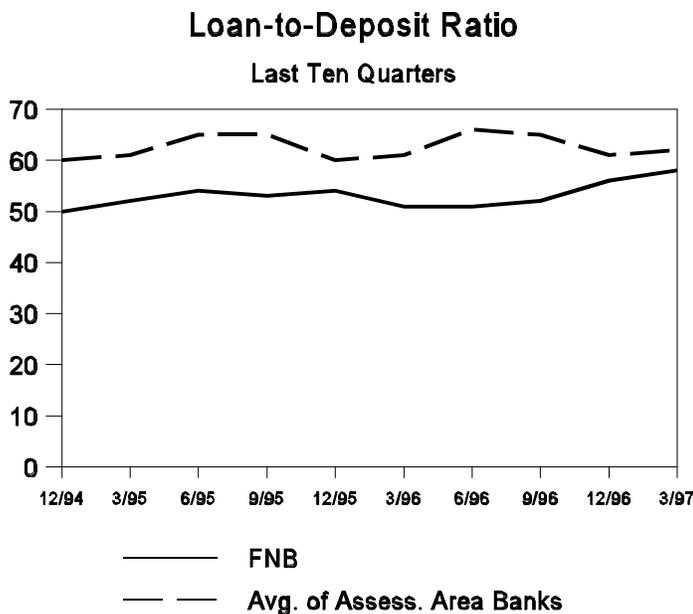
Fosston. The contacts revealed no unmet credit needs or discriminatory practices within the assessment area.

Of all households in the assessment area, 35% are low-income, 20% are moderate-income, 18% are middle-income, and 27% are upper-income. The Minnesota 1997 statewide nonmetropolitan median family incomes is \$38,514.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio

The bank's level of lending is reasonable compared to other banks in the assessment area. During the last 11 quarters ending March 31, 1997, the bank's average loan-to-deposit ratio is 53%. This compares to the average loan-to-deposit ratio of 62% for the other 12 banks headquartered within the assessment area. Of these 13 banks, FNB has the tenth highest loan-to-deposit ratio.



Average loan-to-deposit ratios for other banks in the assessment area range from 24% to 94% over the same 11 quarter time period.

Lending in Assessment Area

FNB extends a majority of its loans within the assessment area. Bank compiled information, based on a sample of approximately 2/3 of the loan portfolio as of June 30, 1997, shows the bank made over 80% of the number of all loan originations within its assessment area. Loans made within the assessment area total nearly 90% of the dollar volume of originations over the same time period. Examiners verified the results of the bank's findings.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The bank makes loans to borrowers of different income levels. Examiners focused on one of the bank's primary lines of business: consumer instalment loans. Examiners reviewed a sample of 34

loans to determine the income levels of the bank's customers. Based on this sample, the bank lends to borrowers of various income levels and does not arbitrarily exclude any group of applicants.

According to the 1990 census, the median family income in the assessment area is nearly \$22,000, which is substantially lower than the statewide median family income. Information from the Department of Housing and Urban Development indicates a 1997 median family income of approximately \$38,500 for the state of Minnesota. A reasonable portion of the bank's loan originations sampled, 29%, were made to borrowers with incomes below the assessment area's median. About 82% of the loans sampled were to borrowers with incomes below the state median family income. Below is a breakdown of the bank's consumer instalment loans by income level.

Annual Income	# of Loans	Percent
Under \$15,000	6	18%
From \$15,001 to \$20,000	4	12%
From \$20,001 to \$30,000	7	20%
From \$30,001 to \$40,000	11	32%
From \$40,001 to \$50,000	3	9%
Over \$50,000	3	9%
TOTAL	34	100%

Geographic Distribution of Loans

The bank's geographic distribution of loan originations is reasonable. Bank compiled information covering approximately 2/3 of the loan portfolio shows the percentage of loans made in moderate-income areas is higher than the number of households in that area. In aggregate, 94% of the number and 96% of the dollar volume of assessment area loans sampled were made in moderate-income BNA's. Seventy-four percent of the number of households in the assessment area are located in the five moderate-income BNA's. The bank has reasonable penetration into all sections of the assessment area. Examiners verified the results of the bank's findings.

Response to Complaints

The bank received no CRA-related complaints since the previous CRA examination.

Compliance with Anti-Discrimination Laws and Regulations

Based on our review, the bank is in compliance with all provisions of antidiscrimination laws and regulations. Examiners found no evidence of disparate treatment.